

Council on Postsecondary Education  
November 3, 2003

2004-06 Funding Distribution Policy  
(Institutional Base Funding)

*The following recommended policy establishes a set of principles that may be used to guide the Governor and legislature in the allocation or reduction of funds to the institutions in special circumstances that may occur after the Council has adopted its biennial budget recommendation.*

Action: The staff recommends that the Council approve the Funding Distribution Policy as a companion to the *Points of Consensus* for the 2004-06 biennium. These principles advise the legislature in establishing priorities for institutional base funding in cases where funding reductions are necessary or when increases are less than the Council's budget recommendation.

The *Points of Consensus* between the president of the Council and the institutional presidents was established to guide the development of the biennial budget recommendation. The 2003 *Points of Consensus* was approved by the Council in February 2003 and signed by the president of the Council and the presidents of the institutions. To date, the *Points of Consensus* has only been used to inform the development of the Council's recommendation to the Governor and the General Assembly. However, the funding situations surrounding the 2002-04 biennium, such as budget cuts and less than full funding of the Council recommendation and the use of a different allocation strategy by the legislature, prompted the Council staff and the institutions to agree that budget priorities and a set of principles and procedures should be developed to inform funding decisions made in these special circumstances.

A committee of institutional representatives, Legislative Research Commission staff, Office of the State Budget Director staff, and Council staff was appointed to review actual funding distribution in the 2002-04 biennium and to develop methodologies to guide the allocation of funds in similar circumstances in the future. The committee and other institutional representatives completed procedures that operationalize these principles using several methodologies. The general principles provided herein were presented to the Strategic Committee on Postsecondary Education (SCOPE) on September 8. The resulting recommendation includes principles to be adopted and used as a companion to the 2003 *Points of Consensus*. The proposed budget priorities and principles are:

- The funding distribution principles are to be used to allocate "new" money to institutions if the Council's recommended funding levels cannot be fulfilled or if the state appropriation to postsecondary education must be reduced.
- The general priorities for distribution will be as follows: (1) base adjustments, 2) common percentage increase up to the current services calculation, and 3) benchmark equity.

### **General Application of the Principles**

- The principles are consistent with the 2003 *Points of Consensus*.
- The principles and procedures recognize that: 1) unless funding for the postsecondary education system is reduced, institutional bases (nominal dollar base in the current year) are to be protected and 2) every institution will receive some nominal base increase, if possible.

Based on these principles, the Council staff, with institutional representatives, refined the attached detailed procedures for an operational model incorporating three methodologies:

1. Increase Allocation Method: allocates new state funds to the institutions when the actual appropriation is less than the Council recommendation.
2. Increase Following a Reduction Method: allocates new state funds following a reduction in state appropriations during the same biennium.
3. Reduction Method: allocates reduction in state appropriations.

As mentioned earlier, the model described above concerns institutional base budgets and how to reduce or distribute less than full CPE recommended funding. In addition, the Council staff will develop an overall more comprehensive Funding Distribution Policy (Postsecondary Education), which will incorporate the entire postsecondary education budget recommendation (of which institutional base funding is only one component). This model will not be complete in time to present to the Council in November, but will be completed by December 2003. The Executive Committee of the Council will be asked to review and approve the model at a specially called meeting in late November or early December (all information regarding the model will be emailed to all Council members in advance of the meeting). The comprehensive model will function to advise the Governor and the legislature regarding allocation of limited funds (or possibly a reduction in appropriations) to all components of postsecondary education, including institutional base funding, trust funds, capital outlay, Council budget, etc.

## CPE State Funding Distribution Methods

The Council on Postsecondary Education recommends the following funding distribution methods to the Governor and the General Assembly if the CPE's recommended funding levels cannot be fulfilled or if the state appropriation to postsecondary education must be reduced. Three allocation methods are presented for different situations. In addition, even though the methodologies do not specifically address allocations or reductions to the various incentive trust funds, these methodologies which are intended to address base funding issues do not preclude such reductions or reallocations. Additionally, in the budget recommendation process, all institutions should be eligible for incentive funds from at least one trust fund.

- (1) **Increase Allocation Method**: allocates new state funds to the institutions when the actual appropriation is less than the Council recommendation.
- (2) **Increase Following a Reduction Method**: allocates new state funds following a reduction in state appropriations during the same biennium.
- (3) **Reduction Method**: allocates reduction in state appropriations.

### (1) Increase Allocation Method

This method is designed to distribute increases in state appropriations to the institutions among base adjustments, maintenance and operating costs for new facilities (M&O), current services increases, and benchmark equity. The method may be used to distribute small or large amounts of new state appropriations, up to the total amount of the CPE biennial budget request.

The following principles, consistent with the *Points of Consensus*, were used to develop this methodology:

- Unless total funding for the postsecondary education system is reduced, the current annual nominal dollar state appropriation base for each institution will be maintained.
- If a state appropriation increase follows a state appropriation reduction within the same biennium, the reductions to each institution will be restored on a pro rata basis to the extent possible (see Increase Following Reduction Method below).
- If the total increase exceeds the amount necessary to restore any previous reductions within the biennium and base adjustments (including, but not limited to, increases in debt service, the Quality Charity Care Trust (the University of Louisville Hospital contract), and M&O), each institution will receive an increase in base operating appropriations (current services and, if warranted, benchmark equity funds).
- An increase in state appropriations will be distributed as follows until available funds are exhausted.

## Total Increase

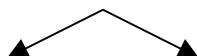
Allocation of increase in state appropriations in the following priority order:



**Base adjustments** including increases in debt service, hospital contract, M&O for new facilities, and other specifically identified programs. If additional funds are available, then



**Proportional base increase** up to one-half of the current services increase as provided in the biennial state budget instructions or CPE's recommended current services increase, whichever is greater. If additional funds are available, then



A

B

### A. Remaining proportional base increase

If the total increase is less than 80 percent of the CPE recommendation, all of the remaining funds go to benchmark equity (letter B). If the total increase is 80 percent or greater of the CPE recommendation, then up to one-third of the remaining funds will be used for an additional proportional increase in the state appropriation base (net of debt service and the UofL hospital contract) for each institution, up to the current services increase as provided in the biennial state budget instructions or CPE's recommended current services increase, whichever is greater.

### B. Benchmark equity

At least two-thirds of the remaining funds will be allocated to the institutions below the benchmark funding objective. Funds will be allocated so that the institutions farthest below their benchmark funding objectives will receive proportionately larger increases than institutions closer to their benchmark funding objectives. This portion of the procedure would use less than two-thirds of the remaining funds only if all institutions have achieved their benchmark funding objectives.

## **(2) Increase Following Reduction Method**

This allocation method is based on the following principles:

- If the state appropriation increase is less than or equal to a previous state appropriation reduction within the same biennium, the reductions to each institution will be restored on a pro rata basis to the extent possible.
- If the state appropriation increase exceeds the previous state appropriation reduction, the reductions to each institution will be restored and the remaining net increase will be allocated based on the Increase in State Appropriations Allocation Method described above.

## **(3) Reduction Allocation Method:**

The State Appropriation Reduction Allocation Method is designed to allocate state appropriation reductions among the institutions. This procedure may be used: 1) to allocate state appropriation reductions that might occur during a fiscal year subsequent to a state appropriation increase being provided for that year, or 2) to allocate a state appropriation reduction that results in the state appropriation for the institutions being reduced to a level lower than the previous fiscal year total state appropriation for the institutions. Each of these situations is addressed below.

### *State Appropriation Reduction Following a State Appropriation Increase:*

This section of the method is based on the following principles:

- Unless the state appropriation reduction exceeds the total state appropriation increase for current services and benchmark equity funding for the fiscal year, the previous year nominal dollar state appropriation base for each institution will be maintained.
- If the state appropriation reduction is less than the total state appropriation increase for current services and benchmark equity funding for the fiscal year, the state appropriation reduction will be implemented so that the net state appropriation increase for the fiscal year (the total state appropriation increase minus the state appropriation reduction) will be allocated based on the principles in the Increase in State Appropriations Allocation Method described above.

### *State Appropriation Reduction to a Level Lower Than the Previous Fiscal Year State Appropriation:*

This section of the procedure is based on the following principles:

- Available trust funds (except the student financial aid trust fund) and funding programs may be reduced on a basis proportionate to their share of the total postsecondary appropriation.

- The first priority for reduction will be increases in current services and benchmark equity funding, if any, down to the prior year nominal state appropriation base for each institution.
- Reduce each mandated program by the same percentage as the systemwide reduction (state appropriations net of debt service and the UofL hospital contract).
- If additional reduction is necessary, the next priority for reduction will be an across-the-board reduction of each institution's state appropriation net of debt service, the Quality Charity Care Trust (the University of Louisville Hospital contract), and mandated programs (previously cut) up to one-half of the current services increase as provided in the biennial state budget instructions or CPE's recommended current services increase, whichever is greater.
- If additional reduction is necessary, the remaining reduction will be allocated among institutions so that the institutions closest to or above their benchmark funding objectives will receive proportionately larger reductions than institutions a greater distance from their benchmark funding objectives.